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# Financial Markets

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Friday Dec. 14, 1979

The money markets are still having trouble adapting to life under the Federal Reserve's present operating tactics. On Wednesday, Federal funds were trading near 13 1/2% when the Fed entered the market to drain reserves through reverse repurchase agreements. As a result, there was once again talk of possible tightening by the Federal Reserve, despite the fact that Fed funds have consistently traded within the 11 1/2%-15 1/2% range adopted by the Federal Reserve on October 6. The possibility of further tightening and statistics that still don't reflect a clear-cut economic downturn were enough to push money market rates sharply higher. Three-month CD rates soared up to over 14% from around 13% last week, with most other short-term rates following suit. Then, the market stabilized on Thursday, as the authorities turned around and added reserves to the system as funds traded near 14 5/8%. Further improvement followed publication of the monetary statistics showing moderate money gains and a drop in New York bank loans.

Widespread expectations that rates have peaked--expectations that dimmed noticeably this week--have been based in large measure on the assumption that economic activity is now declining. But the latest business reports suggest otherwise. Employment as measured by the payroll survey was up 380,000 over October and November. And November's retail sales in the preliminary estimate offset October's decline. If retail sales in December just stay at November's level, the fourth quarter will be up over the third at a 10% annual rate, which should be enough to keep the economy drifting sideways. Also, October's inventory figures indicate that inventory accumulation is rising from the third-quarter pace. If that is the case, and we think it is, the economy should register modest growth in the final quarter of the year.

The prospect for continued--if modest--business expansion in the current quarter has obvious monetary policy implications. At the special October 6 Federal Open Market Committee meeting, the credit authorities felt it was necessary to go ahead with the surprising shift in policy even though the FOMC's forecast indicated that "...a decline in activity in the fourth quarter still [appears] probable." If, as seems likely, the Fed policymakers are pushing the start of the anticipated downturn into 1980, the argument for an imminent easing in monetary policy has been dulled. Perhaps by canceling its regularly scheduled December meeting, the FOMC is indirectly signaling that for now it will simply maintain the status quo and wait for the actual numbers to tell the final story in 1979.

Glenn C. Picou

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# Money Market Rates

| | 12-14-79 (noon) | Week Ago | Year Ago |
|---|---|---|---|
| **Prime Lending Rate at Irving Trust Company** | | | |
| Short-term loans to substantial depositors with highest credit rating | 15.25% | 15.25% | 11.50% |
| Effective since | 12-7-79 | | |
| **Discount Rate at Federal Reserve Bank** | 12.00 | 12.00 | 9.50 |
| **Federal Funds** | 14.25 | 13.63 | 9.88 |
| **Repurchase Agreements** | 13.65 | 12.50 | 9.55 |
| **U.S. Treasury Issues - Yields** | | | |
| Bills | | | |
| 3 months | 12.76 | 12.30 | 9.30 |
| 6 months | 12.95 | 12.50 | 9.88 |
| 1 year | 12.00 | 11.90 | 10.15 |
| Coupons | | | |
| 2 years | 11.88 | 11.18 | 9.60 |
| 4 years | 10.86 | 10.35 | 9.18 |
| 7 years | 10.40 | 10.30 | 9.01 |
| 10 years | 10.38 | 10.24 | 8.99 |
| Long Bond | 10.14 | 10.00 | 8.89 |
| **Negotiable Certificates of Deposit-Secondary Market** | | | |
| 1 month | 14.00 | 13.00 | 10.10 |
| 3 months | 13.95 | 13.10 | 10.50 |
| 6 months | 13.85 | 13.10 | 11.00 |
| 1 year | 12.50 | 12.45 | 10.50 |
| **Bankers' Acceptances** | | | |
| 1 month | 14.00 | 13.05 | 10.14 |
| 3 months | 14.15 | 12.85 | 10.57 |
| 6 months | 14.05 | 13.10 | 11.08 |
| **Eurodollar Deposits** | | | |
| 1 month | 14.50 | 13.75 | 10.75 |
| 2 months | 14.81 | 13.88 | 11.00 |
| 3 months | 14.81 | 14.00 | 11.38 |
| **Commercial Paper - Prime Names** | | | |
| Directly placed by: | | | |
| Finance Companies | | | |
| 1 week | 13.25 | 13.00 | 9.25 |
| 1 month | 13.63 | 13.00 | 10.13 |
| 3 months | 12.00 | 11.50 | 9.88 |
| Bank Holding Companies | | | |
| 1 month | 13.75 | 13.00 | 10.13 |
| Dealer Placed: | | | |
| 3 months | 13.75 | 13.00 | 10.38 |
| **New Aa Corporate Utility Bond** | 11.85 | 11.50 | 9.35 |
| **Tax Exempt** | | | |
| 6 month Project Notes | 6.05 | 6.15 | 5.40 |
| 12 month Project Notes | N/A | N/A | 5.50 |
| 20 year AAA Bond | 6.70 | 6.70 | 6.00 |

This information represents prevailing market yields. It should not be construed as an offering. All yields are on the offered side of the market.

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